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SUBJECT: CZECH GOVERNMENT POSITION ON CLIMATE CHANGE

REF: A. PRAGUE 112

[1](#)B. 07 PRAGUE 1151

[1](#)1. (SBU) SUMMARY AND COMMENT: Climate change will be an issue of key significance during the Czech EU presidency beginning January 2009, even though the three-party governing coalition is not yet in lockstep on the issue. The government's official position generally supports the European Commission's (EC) January 2008 Phase 3 proposal to update the EU Emissions Trading Scheme (ETS), but the Czech Green Party is often out in front of its more skeptical coalition partners -- Civic Democrats (ODS) and Christian Democrats (KDU-CSL). The three parties will likely converge around the EC proposal, which gives political cover for compromise on the three areas of internal dissent: carbon leakage, emissions allowance auctions for the energy sector and use of auction proceeds. Despite the Civic Democrats and Christian Democrats' relative lack of interest in climate change, the government believes it will fall to the Czech EU presidency to implement the EC proposal since the Czechs do not expect the French to take much action on the issue during their presidency in the second half of 2008. End Summary and Comment.

POTENTIAL FOR POLITICAL FRICTION

[1](#)2. (SBU) Coalition partners ODS and KDU-CSL concede that climate change will be part of the 2009 Czech EU presidency, but they feel that the Greens have "hijacked" the issue. Czech President Vaclav Klaus (ODS) is one of the most well-known climate change skeptics, and other senior ODS leaders would be happy to push this issue further down the list of priorities for their EU presidency. Climate change is a politically tricky issue in the Czech Republic given the extreme views within the coalition, but it is not expected to bring down this government. While downplaying Klaus' influence on the government climate change policy, Deputy Prime Minister Sasha Vondra (ODS) told a group of Ambassadors in Prague February 7 that climate change was "not about science, but politics," and that the Czech Republic would take a more "realistic" approach to the issue than other EU countries. At the same time, Deputy Prime Minister and Minister of Environment Martin Bursik (Green Party) is under increasing pressure from within his party to show that their priorities are being addressed. He told CODEL Boucher March 19 that climate change is the main EU presidency issue for the Troika (France, Czech Republic, Sweden) under the 18-month common program being finalized now. Internal political maneuvering will continue to shape the final Czech government position until the European Parliament and the Council of Ministers hold a first reading of the EC proposal, expected in summer 2008.

GENERALLY SUPPORTIVE OF ETS PHASE 3 PROPOSALS

¶3. (U) The official government position supports a broad-based climate change agreement, including the EC-proposed additional 10% emission reduction goal if international agreement is reached. Although ETS-regulated industries, in particular the electricity monopoly CEZ, continue to lobby for changes, the Czechs are mostly in line with other EU members on the majority of the EC's Phase 3 proposal. The Czechs fully support the extension of the ETS to additional sectors and other greenhouse gases. They also support the exclusion of small installations (they propose a threshold of 25,000 tons of CO2 per year vice current threshold of 10,000) since they have large numbers of smaller emitters and this would reduce the regulatory burden. The government more grudgingly supports the EU proposal that 2005 emissions levels should be used as the new base year, since this is the only year with verified pan-EU emissions monitoring. However they argue that Czech Republic's 'savings' from the mid 1990,s are being spread to other countries and warn that using 2005 as a baseline could have a big impact on domestic energy prices and industry.

THREE AREAS OF CONTENTION: AUCTIONS, AUCTION PROCEEDS, CARBON LEAKAGE

¶4. (U) While the government has developed an official position on climate change, it has not been debated in the Czech Parliament and a number of areas of contention are evident in conversations with senior leaders. These internal divisions are most apparent in discussions on: (1) how to distribute emissions credits, (2) how proceeds from the auctions should be used, and (3) the so-called "carbon leakage." The government supports auctioning as an effective tool for most industries and is officially satisfied with the EU's credit allocation of 118% of 2005 emission levels for

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the Czech Republic. However, they disagree on auctions for allocations to the energy sector, a powerful industry that includes the majority government-owned cash cow CEZ. While the anti-CEZ Greens want full auctions for all industries starting in 2013, the official government position supports allocating 20% of emissions credits to the energy sector through auction in 2013 and gradually increasing to 100% by ¶2020.

¶5. (U) The EC has proposed that a fixed percentage of proceeds from auctions should be used for climate protection projects such as renewable energy or carbon capture and storage (CCS) research. The official Czech government position is that all proceeds from auctions should return to the member states and be unencumbered by environmental earmarks. The Ministry of Environment publicly dissents from this position, stating the money should be used to develop renewable heat sources (a large percentage of household heat in the Czech Republic comes from coal furnaces), while CEZ recommends the funds be used to research and develop cost-effective CCS systems that would be particularly beneficial to their existing coal-fired power plants.

¶6. (U) Deputy Minister of Industry and Trade for Energy Tomas Huner, who sits on the CEZ Supervisory Board, raised the specter of energy price increases to justify the concern with carbon leakage, which is the movement of carbon emitters to other countries with less strict (or nonexistent) environmental standards. This is of particular interest to CEZ, as the largest emitter in the Czech Republic regulated under the ETS. The government has responded by suggesting a detailed risk-analysis of energy-intensive sectors by June ¶2010. If the study reveals there is legitimate threat of movement, mitigating solutions would need to be established by June 2011. One of the envisioned solutions includes continued free allocations of emissions credits to the energy-intensive sectors with the understanding that the Czech government will determine which sectors qualify.

SOME SUPPORT FOR U.S. PRIORITIES

¶7. (SBU) The Czech government's plan for combating climate change is primarily focused on the EU ETS. They see possibilities for leadership among the G8 and to a lesser extent, the U.S.-led Major Economies Process (MEP), cautioning that the MEP should not replace the UNFCCC as the forum for negotiations. Czechs agree that China and India must be at the table and support the notion of differentiated climate change targets for individual countries, noting that their own EU 'bubble' was necessary for the EU to achieve emissions reduction goals while giving less-developed EU member states room to grow. Civic Democrat Senator and former Environment Minister Bedrich Moldan cautioned, however, that allowing developing countries like China to use a 'cumulative record' of carbon emissions as its goal would permit the country to emit as much carbon per capita as the U.S. before being required to curb emissions. Moldan feels that while China may get on board with a post-Kyoto agreement, India is probably a lost cause because of internal political problems.

TROUBLE MEETING NEW EU RENEWABLES TARGETS

¶8. (U) Local environmental experts view the proposed EU-wide commitment of 20% renewable sources of energy by 2020 as impossible to achieve (note: each member state has its own target percentage--Czechs 13%, Germans 18%, Sweden 49%). The Czechs currently produce 6% of their energy through renewable sources, but the government has agreed with Brussels to raise this figure to 13% by 2020. Claiming limitations in hydro and wind potential, and limited agricultural production for biomass, Deputy Minister Huner is lobbying internally to have the goal reduced to 10%. Even if they are successful in obtaining this reduction, experts expect the Czech Republic will fall short of 10% and will need to buy credits or use other mechanisms to meet their commitment.

¶9. (U) Two other areas of future interest include carbon capture and storage and energy efficiency. The large domestic coal reserves make coal-fired power plants an obvious choice for future energy production if the emissions can be captured and stored. While the technology is in its infancy, Czech experts see this as one solution for reducing their emissions footprint. NGOs are more focused on mitigation and note the low levels of energy efficiency in homes and businesses. They believe that changing habits through higher energy prices and rebates for energy efficient homes is an opportunity to reduce energy usage even as the Czech population grows.

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